



Cabinet meeting of January 7th and to the Secretary of State's comment on the lack of reference to the social sciences and the humanities. Dr. Fleming hoped this had been corrected by the third paragraph in the draft statement. Sec. Dulles suggested changing the words "greater stress" to "increased stress".

There was no further discussion of CP-13/B and the draft statement therein was considered approved.

The President then digressed and mentioned the irony inherent in the fact that we had invested some \$6 billion in the E-47, now obsolete -- while the House had chopped \$12 million from the Educational Exchange Program, which is of demonstrated worth. This, said the President, was just criminal.

The Secretary of State gave another example: Representation allowances, which are utterly inadequate for the diplomatic task facing our representatives in key spots all around the world. The President commented on the great effort expended to find a man for a sensitive Far Eastern post and "when we found him, what could we offer?" The Vice President pointed out that the Senate Appropriations Committee would be considering restoration of some of these cuts, and went on to cite his Latin American tour as another example of inadequate representation allowances becoming embarrassing, as the CIA had to help foot the bill.

Sec. Dulles compared US allowances with those of UK diplomats. Mr. Hughes said that, of course, we must have a system of priorities in Government expenditures. The Secretary of State emphasized that a strong case could be made for greater priorities for representation funds. To dramatize the point, the Vice President asked what would we have paid 'for Prime Minister Kotekawala's speech' at the Bandung Conference. He said fundamentally these countries want to be paid attention to, and that the CIA had to help out the representation funds for Bandung.

The President reiterated his unhappiness at the inconsistency of pouring great sums into vast projects with diminishing returns, while at the same time crippling such sort modest projects and progress which are of demonstrated value.

Preliminary Tax Discussion - The Secretary of the Treasury said he wanted the political advice of the President and the Cabinet on five major questions of tax policy. He asked for guidance as to which of the five subjects we should attack and make proposals on this year (rather than next year when we would like it less), and which should be "buried permanently".

The Secretary of the Treasury pointed out that several errors were made in last year's major revision of the tax code. A typographical error had wiped out the penalty for a certain type of narcotics violation; the Congress had corrected that. Another error allowed a loophole for business accounting; the House has approved a correction for this and it is expected that the Senate will do likewise. In addition, there are some seventy other typographical and minor editorial errors which ought to be changed.

The five sensitive areas are as follows:

1. Whether or not to tax Co-ops. Sec. Humphrey pointed out that in 1951 Congress had passed a law taxing co-ops but that their lawyers had found a way around it. Some of the co-ops affected had put their petroleum reserves in the form of credit shifts, payable at an indefinite period. The courts have since ruled that these shifts were so indefinite as to be non-taxable. Mr. Humphrey pointed out that some of the co-ops